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Guaranty Trust Company
of New York

Industrial and financial
field armies

[New York]

[1918]

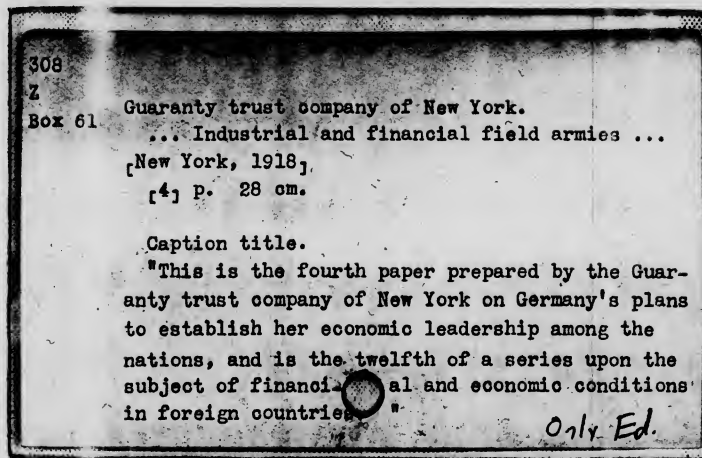
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Guaranty Trust Company of New York

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Industrial and Financial Field Armies

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This is the fourth paper prepared by the Guaranty Trust Company of New York on Germany's plans to establish her economic leadership among the nations, and is the twelfth of a series upon the subject of financial and economic conditions in foreign countries, with particular reference to their plans for reconstruction after the war.

FROM the very beginning of the war the German rulers have perceived clearly the wide range and diverse character of the economic changes which a struggle so tremendous must bring. They began preparations to meet them as soon as the possibility of a quickly attained victory had vanished, and it is perhaps illustrative of their instinct for general ideas that they decided to apply to business organization the same principle that they relied upon to bring success in war—the principle of mass formation.

Adroit as they are in details, the leaders of Germany have staked their reputations upon the efficacy of volume, and whether it be of troops, or munitions, or money, or any other instrument of conquest, it is great numbers, under unified control, that preëminently distinguishes their military policy. That principle was not unknown in the industrial life of Germany before the war, and the cartel has stood for many years as its chief embodiment, but it was not generally applied until the necessities of war and the prospects of recovery after the war directed the attention of the authorities, largely dominated as they are by military officialdom, to its possibilities. It flattered the German mind to picture the divergent economic forces of the country marshalled into bulky field armies in accordance with the precepts of military effectiveness. But mass formations, whether of soldiers or of business men, entail a subjection of individual abilities and opportunities for personal advancement, and as the time draws near when these economic forces are to test the mettle of their opponents signs multiply that many of the units are ready to rebel.

GOVERNMENT IN CONTROL

The German economists define the great amalgamations of industrial and financial forces in the Empire as of two kinds, according to the motive which prompted them. In the first place concentrations have been made necessary by the existence of war and what it has involved in the way of embargoes,

blockades, war work, and the destruction of economic goods. To obtain the highest efficiency in production, together with the greatest economy in employment of labor, raw materials, credit, and transport facilities such concentrations have been declared essential. The other kind of amalgamation has been promoted not to serve present needs or purposes, but as a part of the general plan to redevelop Germany's foreign trade after the war. The distinction between the two kinds became less and less marked as the amalgamation policy was extended and gradually the idea was inculcated that the fusions, either voluntary or compulsory, were likely to be of such permanent value as to warrant placing supervision of them in one official body. Accordingly the Standing Committee for the Consolidation and Closing of Undertakings, which was created in December, 1916, has now been abolished and all matters dealing with the consolidation and closing of undertakings have been placed within the jurisdiction of the Imperial Department of Economic Affairs. In announcing this transfer of authority the War Department declared that "in working out schemes for consolidating and closing undertakings, it has become increasingly apparent that all these measures will have a far-reaching influence upon the future economic structure of industrial and commercial conditions."

GROWTH OF THE GOVERNMENT

At the beginning of this year a German writer stated that the fusion movement had extended to so many industrial departments and branches of commercial life that "only the most important of the perfectly incalculable number of transactions can be touched upon." In some cases this syndication has been voluntary, in others compulsory, the fact in most cases being that if it had not been voluntary it would have been compulsory. Most important of the voluntary syndicates are those of the bar-iron industry, the dyestuff interests, the silk industry, the

textile industry, and the tool and implement manufacturers. Coal and steel syndicates already in existence have been extended for the period of the war.

The first industry to be centralized in a compulsory syndicate was the manufacture of boots and shoes, and as illustrative of what has been going on in other industries all over Germany it may be interesting to give the salient features of the construction and operation of this huge economic weapon as reported by the Department of Commerce.

SYNDICATE ORGANIZATION

The syndicate was formed under a decree of the Federal Council issued on March 17, 1917. The central authority is a supervisory committee of the boot and shoe industry, the members of which are appointed by the Imperial Chancellor. A representative of the Chancellor attends its meetings in an advisory capacity and may suspend its decisions for review by the Chancellor, who must be kept informed of all important events. The supervisory committee is kept in touch with the views of the trade and the public by an advisory committee of seven members, selected from the trade and the consumers by the Chancellor. It is a legal person.

The supervisory committee determines in individual cases whether a firm comes within the rules requiring membership in the syndicate, and what shares are to be taken by each firm; exercises supervision over the companies, appoints and dismisses their managing directors; determines the kind and quantity of footwear to be produced by each member; prescribes the principles governing the purchase prices of the companies; the conditions and prices of sale, and of the distribution of profits; examines and approves their balance sheets; distributes raw materials as well as army and navy contracts. Any disapproval made by individual firms of materials supplied by the committee, or goods made therefrom, is legally invalid, if the permission of the committee has not been obtained. The committee may requisition for a syndicate company the plant, materials, and finished goods of any manufacturer of footwear. The committee administers an equalization fund, raised by contributions from the companies, from which indemnities are to be paid to those companies whose dividends, when compared with the turnover of the members for the year ending June 30, 1914, are in consequence of its measures less favorable than the average for all the companies. The expenses of the supervisory committee are met by a levy upon the companies.

CONTROL OF FOOTWEAR MANUFACTURE

The individual firms were compulsorily combined to form companies under the title of "Footwear Manufacture and Sale Companies," with a capital of 100,000 marks each. Areas were determined by the Chancellor, for each of which a company was formed to include all firms in the area. Eighteen such companies have been formed, and their combined areas of operations appear to cover the whole Empire. The companies are to enforce the orders of the supervisory committee upon the individual firms, and to conduct the greater part of the wholesale trade in footwear.

The individual firms must manufacture footwear as required by the supervisory committee, which determines finally their share in the manufacture. They must obey the requirements of their company in the manufacture of footwear for sale, being answerable to it for good workmanship, etc., and, subject to an appeal for arbitration, they must sell their output to it at prices fixed by the board of directors in the manner prescribed by the supervisory committee. Two-tenths of 1 per cent. of the monthly output of each firm (at least one pair) is released from this obligation. It is a criminal offense for the members of the company to manufacture footwear except by permission of the supervisory committee, or to destroy or otherwise use contrary to its instructions materials obtained from or through it. The output is sold by and for account of the company, in the manner and at prices prescribed by the supervisory committee. Disputes between a company and its shareholder firms or its customers as to delivery of goods are arbitrable before a special standing board appointed for the district by the State government. A company may enforce in the ordinary courts claims for damages against its members arising out of their default.

The dividends of the companies, including profits from military contracts and indemnities (if any) from the equalization fund, will, it is stated, be distributed among their members in proportion to their production for the year ended June 30, 1914, irrespective of whether or not they are actually at work. For this reason dues must be paid to the company for plant, land, and buildings used otherwise than in the service of the company. For the protection of firms shut down, footwear sold through the companies must not bear any name or trade-mark.

OTHER EXAMPLES

Syndication of the manufacture was followed by syndication of the trade, the retail dealers being compulsorily formed into big distribution companies,

and distribution being confined to them. Since then amalgamation of the soap industry, graphite mines and works, and the toy industry have taken place. It was reported to the British Board of Trade Journal a year ago that "many fusions and acquisitions similar to those noted have taken place in the mining industry, as well as in the motor vehicle industry. It is held that a strong demand for cars and lorries will make itself felt after the war, first to replace the vehicles handed over to the military authorities, and secondly because an increase in motoring is expected. A tendency towards concentration has also been manifested in the machinery industry."

BANK FUSIONS

The same policy of amalgamation is being carried out by the banks, partly with the intention of meeting more easily the insatiable demands of the Government for war funds, partly with the idea of meeting more expeditiously and economically the needs of industry and trade after the war. The result is that a few of the great banks in Berlin are gradually coming into a position where they will control absolutely the economic policy of the Empire, and there is little doubt that they will control it in the interest of the classes whom we consider responsible for the war. At the end of 1917 the total deposits of the eight leading joint-stock banks of Berlin amounted to 16,399 million marks, as compared with 10,000 million marks in 1916; 7,250 million marks in 1915; and 5,000 million marks in 1914. At the same time the Imperial Bank showed an increase of 1,153 million marks in gold holdings.

The Frankfurter Zeitung "deplores the gradual thinning of the ranks of private bankers and the increasing concentration of deposits in Berlin." It also asserts that the Imperial Bank is welding the banking system more and more closely together and adds that the Imperial Bank probably desires to make banking business profitable in order to find in it a powerful support during the difficult transition period. Another leading journal states that "the general inclination is to regard the future prospects of German banking as rosy, inasmuch as the present economic organization is likely to be retained for some time after peace is proclaimed, and as long as this lasts the interests of the banks will be bound up with those of the State." Another paper reports that "in the banking world Berlin high finance has proved itself so powerful that it has been able to absorb provincial institutions irrespective of their size. The Deutsche Bank set the pace by the extension of its connections in the East. The Disconto Gesellschaft followed suit, but did not confine itself

to the East alone, extending its borders to the coast and to Central and West Germany. Among its concerns the Allgemeine Deutsche Kreditanstalt, in Leipzig, which long ago had relations with the Schweizerische Kreditanstalt, has absorbed a number of banks. The Dresdner Bank has greatly extended its sphere of influence in the West; it now has over 88 branches and 100 deposit offices, many of the latter constituting a large bank in themselves."

A UNIFYING AGENCY

No one should get the impression that fusions of industries and financial institutions, such as those outlined, are confined to productive enterprises, as such, or to the institutions which finance them. The fusion principle is being applied to every phase of economic life in Germany. There are amalgamations to obtain raw materials, to improve transportation facilities, to develop home and foreign markets, to foster commercial education and economic research. Wherever by any possibility the policy can be followed with advantage to the economic life of the country as a whole, there concentration appears. By this means there is being created a nationwide machine dominated by the Imperial Government and wholly amenable to its purposes. It is evidently the intention to continue the direction of this machine in the hands of the Imperial Department of Economic Affairs for some time, and meanwhile to foster the growth of some voluntary organization, such as the proposed Foreign Trade Institute, which will remain a nucleus for a unified national economic life. It is proposed that the various syndicates be supported by the institute, which would be formed by amalgamating the existing foreign trade organizations. The institute would have a central office, with a library and exhibition rooms, would organize advisory and executive bodies from the committees representing the various organizations, and would establish branches abroad.

PRODUCTION FOR EXPORT

The immediate problem of Germany when the war ends will be to obtain a supply of raw material and to resume the production of goods. There is no doubt that such production, contrary to the normal procedure, will be primarily for export. Indications are that the great mass of the German people will be held for some time to their present reduced standards of living, that their use of the cheapest substitutes for ordinary food and clothing will continue, that strikes will be rigorously put down, that emigration will be restricted—all in order that foreign markets may be flooded with every variety of article that can

be produced in Germany, always assuming that these foreign markets will be reopened to them. Germany must pay her debts and she will not be able to pay them by indemnities extorted from conquered nations. She can pay them only by exporting goods. Her preparations to do that have comprehended not only organization at home but also organization abroad, and organization upon the principle that investments abroad are the very best guarantee of a market for goods.

TRADE ASSOCIATION

In line with this policy there has been formed a new foreign trade association, with central offices in Hamburg, which will concern itself exclusively with the development of German oversea business. According to the Kölnische Zeitung important export houses, manufacturing corporations, shipping lines, and banks in Hamburg and all the other commercial and industrial centres of the Empire will be interested. The company is to serve as an active and efficient axis, round which all Germany's efforts to re-knit her old relations and establish new ones will revolve. It is not to be a bank in the ordinary sense

or an export bank. It will, on the contrary, refrain from banking operations of the usual sort. It will act primarily as a syndicate for exploring foreign markets, and when advantageous opportunities present themselves will fulfill the functions of a financial promoting company. It will take up, on behalf of all German interests concerned, promising projects abroad, such as waterworks construction and operation, railway building, harbor and dock works, and transactions of similar magnitude. These the company will not only promote and carry out, but if necessary provide the money for. The initial capital of \$5,000,000 is wholly provisional. It will be multiplied many times over as required.

All these plans for recalling the prosperity which was so foolishly thrown away in 1914 and for attaining that economic supremacy which she now sees is no longer to be had by force of arms, indicate a persistence in the German mind of absolute satisfaction with the methods which won for the Empire such a proud position in the business world before the war. Their tactics have merely been developed for the conquest of greater laurels. The whole scheme is a challenge to the enterprise of all nations.

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